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What The Numbers Don't Show

Under Secretary of State for Economic Affairs Allen Wallis recently reiterated the administration's position on U.S.-Japan relations in a speech before the U.S.-Japan Economic Agenda in Washington. If there were any doubts about Washington's approach in dealing with its Pacific ally before the Tokyo summit talks, Mr. Wallis' speech certainly dispelled them. Warning against the

Y3.3 trillion (\$19.4 billion at Y170=\$1.00), the yen's appreciation will reduce it by Y4 trillion (\$23.5 billion).

Randall S. Jones

Japanese Wage Increases Fall Short Of Last Year's Hikes

The annual spring round of industry-wide wage negotiations in Japan has yielded lower wage offers than last year despite government support for a substantial increase to stimulate consumer spending. Surveys of firms and unions indicate that wages will increase about 4.6 percent compared to slightly over 5 percent last year. The smaller increase reflects the depressing effect of the stronger yen on the Japanese economy.

Most labor unions had called for a wage hike of at least 7 percent as compensation for a succession of small increases in the past (see JEI Report No. 14B, April 11, 1986). During the last five years, the manufacturing sector's productivity has increased 25 percent while real wages have risen only 11 percent. Management, however, countered that the increase should be limited to 3 percent, citing the decline in corporate profits in fiscal 1985 for the first time in three years.

The All-Japan Council of Private Sector Labor Unions predicts that wage increase in the private sector will top 4.6 percent, less than 1985 but higher than 1984's 4.46 percent rise. A survey of 681 firms by Nihon Keizai Shimbun forecasts a 4.51 percent wage increase (see Table). Service sector workers are generally expected to fare better than those in manufacturing, although only two industries, information processing equipment and services and retailing, are likely to exceed the 5 percent level. Last year, in contrast, seven industries topped 5 percent. Moreover, information processing equipment and services is the only industry that is likely to grant a larger wage increase in 1986 than in 1985.

Steelworkers, traditionally the pacesetters in wage negotiations, fared poorly once again this year. From 1981 through 1985 this group's average wage increase was only 4.7 percent, compared to 5.7 percent for the private sector as a whole. This year Japan's top five steel makers agreed on a wage hike of only 2.66 percent, their smallest raises ever. The firms had earlier cut salaries for senior executives because of poor earnings and forecasts that this year's total crude steel output will be less than 100 million metric tons.

The wage increase for public corporation employees, such as postal workers and Japanese National Railway employees, is 4.28 percent, compared to 4.85 percent last year. From 1981 to 1985, these workers averaged 5.6 percent wage hikes, nearly matching the private sector's 5.7 percent.

The moderate wage gains from this year's negotiations are unlikely to provide a major boost to personal consumption expenditures, which registered a modest inflation-adjusted rate of 2.7 percent in 1985 while the economy grew 4.6 percent in real terms. But inflation, which was only 1.9 percent last year, is expected to decline further because of the stronger yen. It is likely, therefore, that 1986's real wage increase should at least match or exceed last year's rise.

Randall S. Jones

Japanese Wage Offers For 1986*

(average monthly wage increase in yen)

<u>Industry</u>	<u>Actual Results</u> 1985		<u>Projected Results</u> 1986		<u>New Monthly</u> <u>Standard Wage</u>
All Companies	Y10,922	5.12%	Y9,974	4.51%	Y220,846
Large Companies	10,924	5.12	9,979	4.51	220,969
Small Companies	10,677	5.39	9,273	4.57	202,862
Manufacturing Sector					
Information Processing	12,481	5.68	13,262	5.70	232,283
Equipment and Services					
Electronics/Electrical	10,719	5.48	9,693	4.80	201,700
Energy-Related	11,323	4.81	11,479	4.74	242,119
Food Products	10,882	4.84	10,796	4.65	232,058
Motor Vehicles	11,020	5.45	9,733	4.63	210,155
Transportation	11,644	4.96	10,943	4.52	242,120
Nonelectric Machinery	11,839	5.37	10,115	4.44	227,336
Textiles/Paper	10,046	5.19	8,734	4.36	200,080
Chemicals	11,083	4.81	9,594	4.03	237,902
Metals	9,052	3.98	6,396	2.72	234,725
Shipbuilding/Defense	9,022	3.97	5,774	2.45	235,139
Service Sector					
Retailing	9,495	5.20	9,675	5.10	189,642
Services/Leisure	11,614	5.35	11,223	4.98	225,308
Construction	11,147	4.65	10,472	4.25	245,978

*Based on offers and settlements by 681 companies as of April 11, 1986.

Source: Nihon Keizai Shimbun, April 16, 1986.Tax Reform In Japan Shows Some Life

The consensus-building process on tax reform is showing renewed signs of activity, in large part due to the expected Diet elections this summer. Two important advisory bodies have sketched out a major income-tax reform program, paving the way for discussion of the details. At the same time, other private-sector and government bodies are advocating further changes in tax regulations applicable to savings and fuels. Whether these developments will truly get the ball rolling in time for enactment at the beginning of fiscal 1987 (April 1, 1987) is still unclear.

The Liberal Democratic Party Tax System Council released an interim report April 24 calling for cuts in both personal and corporate income-tax rates as one part of the fiscal 1987 reforms. This advisory board reflects a wide range of opinions and gives a good indication of feelings among the rank and file. Although the report is decidedly lacking in specifics, it discusses three main proposals: tax simplification through an unspecified reduction in the number of tax brackets for individuals (currently 15); a reduction in the

Mexico Seeks Help From Japan

The sharp decline in crude oil prices has helped some countries and hurt others. Japan will certainly benefit from cheaper oil due to its high dependence on imported crude. Mexico, on the other hand, has seen its export earnings shrink dramatically in the past few months and officials see no sign of a reversal. This development poses a serious threat to the entire Mexican economy in light of the country's large foreign debt. Since Japan is flush with savings, it is not surprising that there have been domestic and foreign calls for Japan to lend Mexico a bigger helping hand.

Japan runs a trade deficit with Mexico (see Table). The importance of oil in the trade picture is obvious, giving rise to Mexican concern over declining prices. Japan's deficit with Mexico fell 36.2 percent in 1985 compared with the previous year, in large part due to the 17.3 percent decline in the value of oil purchases. Also of concern are the drops in imports of Mexican-produced food products, textile inputs, metal ores and chemicals, while exports of Japanese manufactured goods continued to grow.

Japan's Trade With Mexico, 1984-85

(in millions of dollars)

	<u>1984</u>	<u>1985</u>
Exports		
Food	\$0.4	\$0.2
Textiles	3.0	4.4
Chemicals	23.1	31.4
Nonmetallic Mineral Manufactures	3.2	5.4
Metals and Metal Products	159.6	126.9
Machinery	672.0	782.5
Other	26.6	43.2
Total	887.9	994.5
Imports		
Food	79.9	59.8
Textile Materials	64.6	26.3
Metal Ores	37.1	28.9
Mineral Fuels	1,787.4	1,479.0
Other Raw Materials	78.0	84.1
Chemicals	56.7	49.1
Machinery	27.8	35.4
Other	128.3	107.3
Total	2,259.8	1,869.9
Balance	-1,371.9	-875.4

Source: Japan Tariff Association, The Summary Report: Trade of Japan

Against this background, Mexican Finance Minister Jesus Silva Herzog visited Japan April 21-25 seeking aid. Mr. Herzog said that his country faced a \$6-\$8 billion decline in export earnings this year due to lower oil prices, complicating the repayment of over \$98 billion in foreign loans that had accumulated by the end of 1985. He prodded the government and private sector to invest at least \$1 billion in Mexican development projects over the short run, stressing Mexico's proximity to the United States and low labor costs. Because Japan benefits greatly from lower oil costs, he urged that Tokyo return some of those gains to poor countries like Mexico. The finance minister also sought more cooperation on preferential treatment for Mexican exports.

Government officials have been discussing an appropriate role for Japan in alleviating the debt crisis and have consistently pushed the topic during talks with other industrialized nations. They are well aware of the dangers of default, particularly the impact on U.S. banks. Mr. Herzog received a friendly reception, therefore, although no specific commitments were made. Nevertheless, it is very likely that investment money will flow in greater amounts from Japan to Mexico in the coming year.

Jon Choy

SDI Delegation Submits Report

The most recent Japanese delegation charged with reviewing policy options regarding Japanese participation in the Strategic Defense Initiative recently completed a 10-day tour of American research facilities and submitted its report to top cabinet officials, bringing a final decision on participation one step closer.

Japanese press reports suggest that the preliminary recommendations contained in the report favor SDI participation, although the nature of the proposed involvement remains unclear. Delegates appear convinced, however, that SDI participation would strengthen Japan's technological base and would not drain valuable resources, an important factor in making a final determination. The delegation presented only a summary of its lengthy report, which will be submitted to the cabinet before the Tokyo summit.

Almost a full year has passed since the Department of Defense invited U.S. allies to participate in the controversial research and development program. Of the countries that have indicated support or interest in SDI, Japan's investigation has been the most methodical. Tokyo is weighing a variety of political considerations, including the impact of participation on relations with other nations in the region; the policy ramifications given domestic restrictions on defense policies; and the lack of uniform support for the program in Tokyo's policymaking circles. The most recent delegation is the third group to have met face-to-face with American policymakers on SDI issues and the first to have actually toured U.S. facilities involved in research on the program. In some respects, it was considered the most important since it included private-sector technical specialists capable of making value judgements about the program's potential impact on Japan's scientific and technological base.